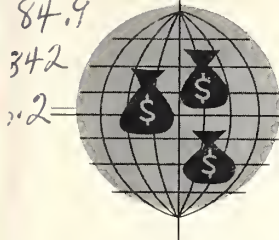


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FOREIGN GOLD & DOLLAR RESERVES

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Special in This Issue:
African Monetary Situation

CURRENT SERIAL RECORDS

**Increase in Holdings
Abroad Smallest
In 5 Years**

APRIL 1963

By McGehee H. Spears

International Monetary Branch ● Development and Trade Analysis Division ● (Issued Semi - Annually)

GLOBAL SURVEY

Gold reserves and dollar holdings, official and private, of foreign countries excluding the Soviet Bloc ^{1/}, and of regional and international institutions, increased \$2.9 billion in calendar 1962, the smallest annual increase recorded in 5 years (table 1). The average annual increase in gold and dollar holdings for the period 1958 through 1961 was \$4.3 billion. Gold and dollar holdings of foreign countries at the end of 1962 totaled \$44.2 billion. Regional and international institutions, principally the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) held \$8.3 billion.

The most important factor in slowing the accumulation rate of gold and dollar reserves abroad has been the improvement in the U.S. balance of payments. Debt repayments to the United States (\$1.3 billion in 1962), often in advance, by foreign countries contributed to the improved payments position and helped slow the further rise in dollar holdings abroad. Although gold and dollar holdings on regional and international institutions rose \$1.0 billion during 1962, this was largely due to three developments. First, subscription and quota payments were made to the IBRD and IMF by new member countries. Seven countries--Kuwait, Liberia, Senegal, Sierra Leone, Somalia, Togo, and Tanganyika--became members of the IMF and IBRD in 1962. Second, there was an increasing use of non-dollar currencies (principally Sterling, Deutsche Marks, and French Francs) when IMF drawings were made. Third, greater use of dollars was reported for repurchases. Sixty percent of all repurchases were in U.S. dollars over the last three quarters in 1962.

The composition of gold reserves and dollar holdings of foreign countries, official and private, at the end of 1962, was as follows: gold reserves, \$23.2 billion, total dollar holdings \$21.0 billion (fig. 1). Total dollar holdings were almost equally divided between official and private deposits in U.S. banks and holdings of U.S. Government securities, principally U.S. Treasury bills and certificates. Over the past decade, gold reserves

^{1/} The U.S.S.R., other Eastern European countries, and Mainland China.

Table 1. Estimated gold reserves and dollar holdings of foreign countries and international institutions as of December 31

Area and country	1958	1959	1960	1961	1962 ^p	Change since Dec. 1961
Million U. S. dollars						
Western Europe:						
Austria	612	630	539	561	783	222
Belgium	1,391	1,279	1,314	1,582	1,539	-43
Denmark	206	232	116	113	114	1
Finland	105	110	87	140	136	-4
France	1,294	1,980	2,165	3,114	3,744	630
Germany (Federal Republic of)	4,407	4,640	6,450	6,509	6,412	-97
Greece	143	212	139	154	196	42
Italy	2,209	3,119	3,080	3,459	3,627	168
Netherlands	1,399	1,634	1,783	1,800	1,830	30
Norway	293	266	260	261	242	-19
Portugal	656	687	637	543	633	90
Spain	96	157	328	470	623	153
Sweden	517	505	479	679	764	85
Switzerland	2,853	2,991	2,957	3,518	3,658	140
Turkey	164	164	152	165	165	0
United Kingdom	3,917	3,813	4,887	4,962	4,587	-375
Other ^{1/}	899	642	573	724	576	-148
Total	21,161	23,061	25,946	28,754	29,629	875
Canada	3,438	3,610	3,770	4,163	4,440	277
Latin America:						
Argentina	210	393	420	426	273	-153
Brazil	464	479	483	514	431	-83
Chile	140	228	180	153	176	23
Colombia	241	288	237	236	205	-31
Cuba	452	296	79	44	16	-28
Guatemala	69	61	68	70	65	-5
Mexico	565	587	541	612	630	18
Panama, Republic of	148	132	124	88	99	11
Peru	96	111	114	132	152	20
Uruguay	262	242	232	238	282	44
Venezuela	1,215	932	800	820	807	-13
Other ^{2/}	261	265	255	223	272	49
Total	4,123	4,014	3,533	3,556	3,408	-148
Asia:						
India	324	361	342	331	294	-37
Indonesia	145	173	237	120	72	-48
Iran	184	187	152	161	148	-13
Japan	1,095	1,566	2,169	1,979	2,484	505
Philippines	189	184	220	213	212	-1
Thailand	246	246	290	368	437	69
Other	1,068	1,291	1,036	1,213	1,336	123
Total	3,251	4,008	4,446	4,385	4,983	598
All Other:						
Australia	241	264	235	260	337	77
South Africa	242	288	207	330	538	208
U.A.R. (Egypt)	190	194	196	189	188	-1
Other ^{3/}	526	567	628	673	714	41
Total	1,199	1,313	1,266	1,452	1,777	325
Total foreign countries ^{4/}	33,172	36,006	38,961	42,310	44,237	1,927
International and regional ^{5/}	3,371	6,225	7,351	7,254	8,258	1,004
Grand total ^{4/}	36,543	42,231	46,312	49,564	52,495	2,931

p. Preliminary. ^{1/}-Includes other Western European countries, unpublished gold reserves, gold to be distributed by the Tripartite Commission, E.P.U., E.F., B.I.S.; the figures for the gold reserves of the B.I.S. represent the Bank's net gold assets. ^{2/}-Includes other Latin American republics and the Inter-American Development Bank. ^{3/}-Includes unspecified countries in Africa, Oceania, and Eastern Europe, and all Western European dependencies located outside Europe and Asia. ^{4/}-Excludes gold reserves of the U.S.S.R., other Eastern European countries, and China Mainland. ^{5/}-In addition to international institutions, principally the IMF and IBRD, includes various other Latin American and European regional organizations except the B.I.S. and E. F. (See ^{1/})

Federal Reserve Board

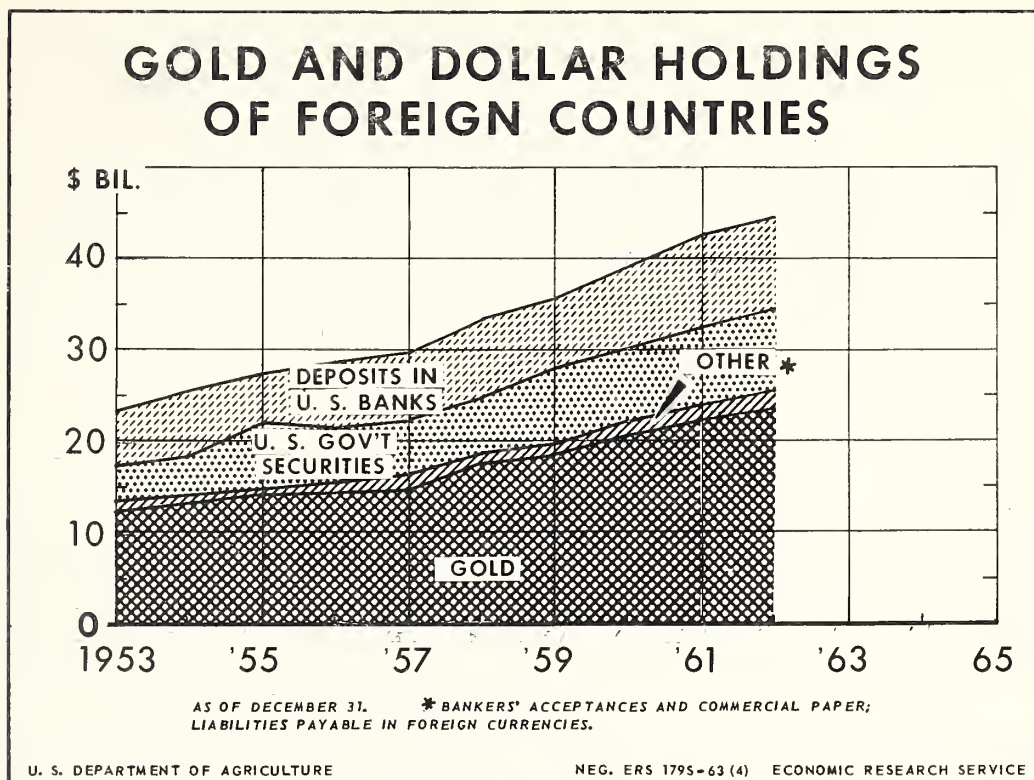


Figure 1

and dollar holdings of foreign countries increased at an average annual rate of \$2.4 billion. Although gold and dollar reserves of foreign countries have been rising steadily to record levels each year, the distribution of these reserves over the world has been, and continues to be, most uneven.

As a group, the more industrialized countries have accumulated the major proportion of gold and dollar holdings. At the end of 1962, the industrialized countries held \$35.2 billion or 80 percent of gold and dollar holdings of all foreign countries (table 2). Gold and dollar holdings of less developed countries have remained fairly stable and over the most recent 5-year period rose by only \$49 million compared with a rise of \$11 billion in the industrialized countries.

Among the industrialized countries, the most sizeable gain in gold and dollar holdings during 1962 occurred in Canada (\$277 million), France (\$630 million), Japan (\$505 million), Austria (\$222 million), and South Africa (\$208 million). Reserves also rose appreciably in Italy, Spain, and Switzerland but dropped sharply by \$375 million in the United Kingdom and by \$97 million in West Germany. The drop in the United Kingdom's reserves occurred at the end of the year and primarily reflects the payment of \$184 million on Britain's postwar debt to the United States and Canada and a weakened export position. The small decline in West Germany's official gold and dollar reserves reflects in part an effort by the monetary authorities to restrain domestic bank liquidity and partly the advance payment for defense purchases from the

United States and the United Kingdom. Geographically, gold and dollar holdings dropped \$148 million in Latin America. Modest gains were recorded for most Asian countries other than Japan and for countries elsewhere.

Table 2.--Foreign countries' ^{1/} gold and dollar holdings

1/ Excludes gold holdings of the Soviet Bloc.

European Economic Community's Gold and Dollar Holdings

Between 1957 and 1962, gold and dollar holdings, official and private, of the EEC almost doubled, rising from \$8.8 billion to \$17.4 billion. This was largely because of exceptionally large U.S. payments deficits during these years with the geographic region of Western Europe as a whole. Unlike the rest of the world, the EEC member countries have accumulated a surplus of dollar assets.

Official and private dollar holdings of the EEC, while steadily decreasing each year as a proportion of total reserves, ^{2/} 40 percent in 1957 to 33 percent in 1962, rose from \$3.5 billion to \$5.8 billion during the same period. The major part of these dollar holdings is held by official monetary institutions in the form of deposits in U.S. banks or of investments in short-term U.S. Government securities, primarily U.S. Treasury bills. At the end of 1962, only \$7 million were invested in U.S. Government bonds and notes. Gold reserves of the EEC comprised 66 percent of total EEC gold and dollar reserves at the end of that year.

With increasing gold and dollar holdings, it would seem that U.S. trade in industrial and agricultural commodities would automatically benefit; however, there is the likelihood that this may not occur. Instead of an expanding market for U.S. agricultural commodities, the Community's plans for agricultural self-sufficiency protected by high tariff walls and other devices may dampen prospective U.S. trade opportunities. ^{3/} During the first EEC transitional period completed on January 1, 1962, steps were taken to merge the industrial sectors of the member economies. These steps involved reducing internal tariffs and abolishing quota restrictions on industrial products. Agricultural trade, excluded from the first phase, is presently under a Common Agricultural Policy instituted at the start of the second phase. By the end of 1969, barriers to intra-community agricultural trade are to be abolished and national agricultural policies are to be harmonized. Part of these efforts may involve restricting agricultural trade with third countries (including the United States).

Although the EEC member countries as a whole possess over half the world's gold and one-fourth the world's dollar holdings, these reserves, to the extent they represent potential purchasing power, may in effect, be "bottled in" by politico-economic trade policies. These policies may exercise a lasting influence on traditional patterns of world trade. These trade policies are not pursued independently of internal economic considerations within the Community itself, but reflect a conscious effort to adjust difficult domestic situations to present world trade patterns. Because the EEC is the major dollar customer for U.S. agricultural exports, several things are being done at present to minimize the adverse effects of EEC agricultural trade policy on U.S. trade.

Through continuous negotiations the United States calls to the attention of the EEC and member countries instances where trade barriers, such as increased import levies or interpretations of new regulations, interfere or threaten to interfere with U.S. agricultural trade. As a result of tariff

^{2/} Gold and U.S. dollar reserves; other convertible currencies primarily of those of EEC member countries and the Sterling Area also constitute reserves but are not included here.

^{3/} For an extensive discussion of recent trends in U.S. and EEC agricultural trade see: Robert L. Tontz and Alex D. Angelidis, "U.S. Agricultural Trade with the European Economic Community." Foreign Agricultural Trade. Oct. 1962.

negotiations under the General Agreement on Tariffs and Trade (GATT) concluded in early 1962, the United States obtained tariff concessions from the EEC on the following agricultural commodities--cotton, soybeans, tobacco, tallow, hides and skins, certain fruits and vegetable products. In addition, the EEC agreed to reconsider U.S. agricultural trade access in the near future for such commodities as wheat, corn, sorghums, poultry, and rice. In the interim, when an EEC policy on wheat becomes operative and during the period of such negotiations, corrective measures will be taken to restore any decline in U.S. exports of quality wheat. ^{4/}

These trade policy developments, together with closer monetary cooperation between EEC member countries and the United States, attest to the significance the United States places on furthering a more stable and expanded world trade. Closer monetary cooperation is highlighted by present U.S. Treasury and Federal Reserve foreign exchange operations. ^{5/} Closer trade and monetary cooperation is almost an economic necessity since the United States and the EEC member countries, taken as a group, are the two leading trading partners of the world and together hold slightly over half the world's monetary reserves.

Major U.S. tariff legislation, enacted in October 1962, may be of assistance in aiding U.S. exports to the Common Market. This legislation provides new Presidential authority to reduce by 50 percent any rate of duty existing on July 1, 1962, and to modify other types of import restrictions. Special authority to negotiate with the EEC reductions in duties of up to 100 percent on goods, including agricultural commodities, for which the EEC and the United States supply more than 80 percent of the free world's needs was authorized if the President determines that such reductions will maintain or expand U.S. exports.

United States Balance of Payments

For calendar 1962, the overall payments balance was in deficit by \$2.2 billion (table 3). The payments deficit is down from the \$2.4 billion deficit in 1961 and represents considerable improvement over the large deficits averaging \$3.7 billion annually from 1958 through 1960. Gold reserves of U.S. monetary authorities declined \$890 million in 1962, compared with a decline of \$857 million in 1961; U.S. gold reserves totaled \$16.1 billion December 31, 1962, compared with \$16.9 billion the end of 1961. Convertible foreign currency holdings totaled \$99 million equivalent the end of 1962, a decline of \$17 million during the year.

^{4/} For a more detailed analysis of the above points together with an analysis of the technical features of EEC trade regulations applicable to U.S. agricultural commodities see: Irwin R. Hedges. The European Common Market and U.S. Agriculture. FAS. Dec. 1962.

^{5/} A report on U.S. foreign exchange operations was published recently. See: Charles A. Coombs. "Treasury and Federal Reserve Foreign Exchange Operations." Federal Reserve Bull. Sept. 1962 and Mar. 1963.

Table 3.--United States: Balance of Payments, second half and calendar years, 1961-1962 ^{1/}

Type of transaction	1961		1962	
	Second	Total	Second	Total
	half		half	
		Million U.S. dollars		
Exports of goods and services, total	14,294	28,066	14,938	29,814
Merchandise	9,981	19,915	10,054	20,566
Services and other transactions	2,107	4,063	2,296	4,428
Military transactions	185	406	314	638
Income on investments	2,021	3,682	2,274	4,182
Repayments on U.S. Government loans	345	1,274	933	1,275
Foreign long-term investments in U.S., net	284	733	644	975
Total receipts	14,923	30,073	16,515	32,064
Imports of goods and services, total	12,052	22,923	12,799	24,999
Merchandise	7,656	14,514	8,170	16,193
Services and other transactions	2,975	5,462	3,121	5,800
Military expenditures	1,421	2,947	1,508	3,006
Private remittances, pensions and other transfers, net	444	878	475	924
Private capital outflow, net	2,009	3,953	1,468	3,051
Direct investments, net	710	1,475	685	1,377
Long-term portfolio, net	643	1,006	484	1,207
Short-term, net	656	1,472	299	467
U.S. Government economic grants and loans, net	2,188	4,051	2,096	4,271
Total payments	-16,693	-31,805	-16,838	-33,245
Total net receipts (+) or payments (-)	-1,770	-1,732	-323	-1,181
Errors and omissions, net	-331	-628	-1,061	-1,000
Excess of receipts (+) or payments (-)	-2,101	-2,360	-1,384	-2,181
Memorandum items:				
Monetary gold, purchases (+), sales (-)	-656	-857	-470	-890
Holdings of convertible currencies, purchases (+)	-70	+116	-455	-17
Increases (-) in foreign holdings of liquid dollar liabilities	-1,375	-1,618	-459	-1,274

Details do not always add to totals due to rounding.

^{1/} Excludes military grand aid.

Source: U.S. Department of Commerce. Survey of Current Business. March 1963.

One of the major factors having a favorable effect on the overall payments position was a rise in merchandise exports of \$651 million to a total of \$20.6 billion in 1962. Merchandise imports during the last quarter of 1962 failed to rise appreciably for the first time since early 1961 but increased \$1.7 billion for the entire year. As a result the merchandise trade balance in 1962 fell sharply to \$4.4 billion or \$1.0 billion less than in 1961. The \$4.8 billion surplus on goods and services in 1962 declined only slightly from the recorded surplus of \$5.1 billion in 1961. This was primarily due to the continuing upward trend in earnings from investments abroad and rising military procurements by foreign countries which offset U.S. military expenditures abroad.

U.S. Government defense expenditures abroad for goods and services averaged \$3 billion annually the last decade. Defense expenditures totaled \$3 billion in calendar year 1962 and represented about 12 percent of all U.S. purchases of goods and services. In recent years these expenditures have been an important factor in the overall payments position and in the rise of foreign gold and liquid dollar assets, particularly in Canada, France, Germany, Japan, and the United Kingdom. In 1962, nearly two-thirds of defense outlays were made in these five countries. To counter the adverse impact of these outlays on the payments position of the United States, the Department of Defense has taken several remedial measures, the most important of which is reducing the procurement of materials and supplies, equipment and services abroad. Procurement of such items is now made in the United States if the estimated cost of domestic supplies and services including transportation and handling charges will not exceed the cost of foreign procurement by more than 25 percent. In addition, greater emphasis is being placed on encouraging other countries to purchase military equipment and services from the United States. These purchases totaled \$638 million in 1962, up \$232 million over the previous year. Included in the amount of total defense outlays abroad is the expenditure of some foreign currencies accumulated through the sale of surplus agricultural products and of other surplus U.S. property.

U.S. Government grants and loans, principally for economic assistance, increased \$220 million in 1962 to a total of \$4.3 billion, but expenditures for this purpose were increasingly tied to the procurement of U.S. goods and services. The direct outflow of dollars as a result of U.S. economic assistance activities dropped very slightly to a rate of \$1.1 million in 1962 compared with \$1.2 million recorded in 1961.

Repayments to the U.S. Government on postwar loans, \$1.3 billion in each of the years 1961 and 1962, made a substantial contribution to total balance of payments receipts. Over one-half of these repayments in each of these years was made in advance of their actual date due.

The rate of private investments abroad in 1962 declined \$902 million from the high rate of \$4.0 billion in 1961. This slackening in U.S. investments abroad resulted from the uncertainty, even if temporary, surrounding the United Kingdom's negotiations for membership with the European Economic

Community, the leveling off of the economic boom in the Community, and unstable politico-economic conditions in Latin America and other parts of the world. The net recorded outflow of private short-term capital fell sharply in 1962, primarily as a result of a reduction in the flow of commercial bank credit to Japan. The annual rate of short-term capital outflow was under \$500 million in 1962 compared with an average annual outflow of over \$1.4 billion in 1960 and 1961.

In addition to the U.S. Treasury and Federal Reserve System's operations in the foreign exchange markets, primarily involving "swap" arrangements, the U.S. Treasury for the first time has sold abroad medium-term, nonmarketable, foreign currency-denominated securities. The purpose of this operation, as in the case of foreign exchange operations, is to deactivate a part of the surplus dollar balances held by monetary authorities abroad; that is, to hold in such securities, at least over the next several months, dollars representing a potential threat to the U.S. gold stock. The Treasury initiated the sale of these special securities denominated in foreign currencies in the latter part of 1961. In addition, a new series of nonmarketable dollar issues was sold to several foreign monetary authorities during 1962 and in the early months of this year. These securities are considered nonliquid assets and represent foreign long-term investments in the United States. In the U.S. balance of payments, these investments are credited to the investment account.

Special securities denominated in foreign currencies were sold to the Swiss National Bank and the Bank of Italy in calendar year 1962. These sales totaled \$622 million equivalent; after redemptions the net amount of such securities outstanding at the end of 1962 totaled \$299 million equivalent. The foreign currencies received by the U.S. Treasury through these sales have been used in part to purchase surplus dollar holdings of foreign monetary authorities and in part to increase U.S. holdings of convertible foreign currencies which totaled \$99 million equivalent by the end of 1962. U.S. holdings of all convertible foreign currencies reached a record high of \$554 million equivalent at the end of June 1962.

Financial Highlights in Selected Countries

Western Europe

A favorable foreign exchange position continues in Austria. Early in the third quarter of 1962, Austria accepted the obligations of Article VIII of the IMF Articles of Agreement. The shift from Article XIV means that the Austrian Government accepts the imposition of more rigorous tests before imposing trade and financial restrictions for balance of payments reasons. A persistent inflow of foreign exchange earnings from increasing tourism and foreign capital investment was primarily responsible for a favorable payments position. These favorable influences were more than sufficient to counter trade deficits in 1961 and 1962. Gold and foreign exchange of the Austrian National Bank and Austrian banks totaled over \$1 billion equivalent the end of 1962, a rise of \$229 million equivalent since the beginning of the year.

About one-third of this rise in total reserves is attributable directly to the purchase of gold in order to maintain a desired ratio of gold to total reserves of around 40 percent. In calendar 1962, \$151 million in gold was added to official reserves. A large proportion of this gold (\$143 million) was purchased from the U.S. monetary gold stock. The National Bank partially liberalized resident capital movements in July 1962. Residents will be permitted to purchase unlimited foreign securities without special license. The transactions, however, must be handled through authorized Austrian banks and the securities must be deposited with those banks.

The balance on goods and services of the Belgium-Luxembourg Union was in surplus the first half of 1962. In comparison, a deficit occurred in the first half of 1961 but a surplus was recorded in the last part of that year. Gold and foreign exchange reserves dropped \$35 million equivalent during 1962, attributable in part to the retirement of foreign currency debt by the Belgium Treasury and banks. From the end of May 1961, when short-term foreign debt reached a peak of \$623 million, outstanding indebtedness was reduced \$360 million by the end of 1962. Favorable balances on goods and services have made this possible. The Government of Belgium, with a view to strengthening the economy, is encouraging the expansion, modernization, and diversification of industry within the framework of its first 4-year development plan. Industry is expected to become more specialized with exports continuing a trend toward more highly processed products.

Gold and foreign exchange reserves in France were at record levels throughout calendar 1962. In the first half of the year the gain in reserves totaled \$545 million equivalent, and by the end of 1962 after a further rise of \$126 million equivalent reserves totaled \$3.6 billion. The increase in reserves in 1962 occurred despite repayments of foreign debts amounting to \$673 million. Three-fourths of this or \$469 million represented an advance debt repayment to the United States; scheduled repayments totaled \$106 million. Payments surpluses over several years have enabled France to build up reserves and at the same time reduce its external debt. Some quantitative import restrictions were removed in the latter part of 1962. The resumption of exports to Algeria helped France's overall trade balance with the French area. On January 1, 1963, the designation "New Franc," adopted for transitional purposes in January 1960, became simply the "Franc." This change had no effect on the value of the Franc (4.90 francs per U.S. dollar).

The balance of payments deficit of the Federal Republic of Germany was the equivalent of \$785 million for the period of five quarters ending September 30, 1962. This is measured by the net movement in gold and foreign exchange holdings of the Bundesbank and the exchange position of commercial banks. The payments position was in surplus by \$327 million equivalent the first quarter of 1962 primarily as a result of the improvement in the foreign exchange position of the commercial banks; but a payments deficit of \$428 million equivalent developed over the remainder of the year. Monetary reserves of the Bundesbank (gold and freely usable foreign exchange) declined \$95 million from the first of the year and totaled \$6.4 billion at the end of the fourth quarter. The trade balance continued in surplus throughout calendar

1962 (\$869 million equivalent), but was \$785 million less than the favorable trade balance recorded for 1961. Imports of agricultural products, especially in the third quarter were down, when the effects of a better than average domestic crop harvest occurred. Imports of total agricultural products from the United States, cumulative from July through December 1962, show a decline of 11 percent over a comparable period in the previous year.

The payments and reserve position of Italy is impressive. The trend in payments surpluses continued in 1962 and adequate reserves enabled Italy to make advance debt repayments to the United States. In spite of these repayments, the gold and foreign exchange reserves rose \$22 million equivalent during calendar 1962. Reserves now total \$3.4 billion. Beginning in November 1962, Italian banks were permitted greater latitude by the Bank of Italy to use the proceeds of funds borrowed abroad. Prior to this the banks were required to maintain full cover for their outstanding foreign exchange liabilities. This move was a part of an overall policy of introducing reforms in the Italian capital market and maintaining an expansionary credit policy. The introduction of official open market operations, and of other monetary measures, is expected to make borrowing rates in the domestic market as attractive as those in foreign capital markets and should reduce heavy borrowings abroad. This monetary reform led to a sizeable inflow of funds in the latter part of 1962, but reserves are not expected to increase greatly over the long run as a result of these changes in monetary policy.

The overall payments deficit of the Netherlands, as measured on a cash basis, totaled \$45.8 million equivalent for the first 9 months of 1962. This payments position is considerably improved over that for the first three quarters in 1961. Although the trade account continued to reflect excess imports over exports, net earnings on services and investment income led to a surplus of \$61.4 million equivalent on all goods and services transactions in the third quarter after deficits in the preceding two quarters. Capital transactions over the three quarters registered a net outflow of \$67.7 million equivalent. Gold and foreign exchange reserves rose to \$2.2 billion by the end of June 30, 1962, the highest level on record. For calendar year 1962, the payments position will be close to equilibrium compared with an overall deficit in 1961 totaling \$91.3 million equivalent. Although reserves declined \$9 million equivalent in the last half of 1962, they remained at record levels and the improvement in the exchange position of the commercial banks in the last half of 1962 exercised a favorable influence upon the overall payments position. These developments reflected an overall satisfactory performance of the Netherlands' economy during 1962.

The balance of payments surplus in Spain amounted to \$184 million equivalent in the first 9 months of 1962. The trade deficit continued to rise throughout the period as a result of continued high merchandise imports. Net receipts on services, especially tourism, together with private remittances and net private foreign investments, continued to more than offset this rising trade deficit. From January through December 1962, gold and foreign exchange reserves rose \$160 million equivalent to a total of \$1,029 million.

Switzerland's gold and foreign exchange reserves increased moderately by \$113 million equivalent in 1962. The Swiss authorities are relying on voluntary monetary restraints to dampen the inflationary pressures arising in part out of the inflow of foreign capital. Although inflows of foreign capital were less than expected during the Cuban crisis, the commercial banks continue their agreement with Swiss monetary authorities to accept no demand deposits from abroad. Time deposits are still accepted but on an interest-free basis with a 1 percent per annum charge. Additional measures included the liberalization of capital exports and the freezing of commercial bank exchange assets in special national bank accounts. The balance on goods and services in 1962 continued in deficit but capital inflows were more than ample to offset such deficits.

The United Kingdom's balance of payments was in surplus over the first half of 1962 by \$154 million equivalent. This is in contrast to an overall payments deficit equivalent to \$143 million in 1961. This improvement reflects some strengthening in the balance on goods and services and the inflow of long-term capital, heavily private, during the first quarter of 1962. The trade balance was in surplus by \$48 million in the second quarter while invisible earnings totaled the equivalent of \$165 million, or almost as much as in the calendar year 1961. The United Kingdom's holdings of gold and convertible currencies increased \$115 million equivalent in the first half of 1962 but dropped \$627 million equivalent during the second half of the year. Part of this decline in reserves is attributable to the termination of a \$50 million sterling-dollar swap arrangement concluded in May 1962 with the Federal Reserve Bank of New York, an EPU debt repayment to Germany, and the payment of subscriptions by Kuwait, Tanganyika, and Sierra Leone to the International Monetary Fund and World Bank. Gold and convertible currency reserves totaled \$2.8 million equivalent at the end of 1962 compared with \$3.3 billion at the beginning of the year.

Canada

In previous years, inward movements of capital to Canada were ample to cover current account deficits and little change in official reserves occurred even with a fluctuating exchange rate. Developments in 1962 were in marked contrast--the balance of payments worsened, reserves fell sharply, then rose again, and the exchange rate which had been allowed to fluctuate freely since September 1950 was stabilized. Total gross reserves show a sharp drop as of the end of the first quarter of 1962, but a gradual rise at the end of each successive quarter. A month-by-month analysis reveals that special financial assistance in cash and standby credits was responsible. Official reserves in the first 5 months of 1962 dropped well over a half billion dollars to \$1.5 billion equivalent. The withdrawal of large amounts of capital, particularly short term, in speculation against the Canadian dollar, weakened the exchange rate and led to this depletion of reserves. In May the exchange rate was stabilized at 92½ cents per U.S. dollar and approved by the IMF as a par value. Reserves continued to decline, however, so that by June 24 emergency external assistance expressed in U.S. dollar equivalents was obtained from the following sources: a drawing of \$300 million from the IMF; a

reciprocal currency agreement with the Bank of England and the Federal Reserve System in the U.S. totaling \$100 million and \$250 million respectively; and a line of credit totaling \$400 million obtained, but never used, from the Export-Import Bank of Washington. At this point reserves moved upward and, coupled with the graduated surcharges of 5, 10, and 15 percent on about half of Canadian merchandise imports, a reduction in duty-free imports of tourists, and reduced governmental expenditures, the speculative pressures on the Canadian dollar abated. Reserves were increased by advance debt repayment by France of \$61 million equivalent in July 1962. By October, the reserve position was further strengthened by the receipt of \$30 million equivalent repayment of debt from the Netherlands and a borrowing of \$250 million (one-half actually received in this month) from several U.S. life insurance companies. One-half the reciprocal currency agreements with the Bank of England and the Federal Reserve System were almost immediately terminated (\$175 million equivalent). In November and December the remaining \$75 million and \$100 million equivalent swaps with those monetary authorities were terminated. The Export-Import Bank line of credit was canceled, but the remainder of the loan obtained from U.S. life insurance companies was received (\$125 million). At the end of the year reserves were almost \$500 million over what they had been at the end of 1961. The trade account in the second half of 1962 showed a surplus and, together with the return flow of capital, the overall payments position will be improved for the second half of 1962.

Latin America

Argentine foreign exchange reserves declined in 1962 to the equivalent of approximately 1 month's imports at 1962 monthly average import levels, with practically no reserve components except undisbursed aid commitments and gold. Reserves declined as a result of the retirement of part of the country's foreign exchange obligations and repurchases from the IMF.

Preliminary estimates indicate that the Argentine balance of payments will show a large deficit in 1962. One encouraging aspect is that the current account deficit was \$250 million equivalent smaller for the first 11 months of 1962 than for the comparable period in 1961. Imports were down 8 percent and exports were about 24 percent above 1961 levels. Continued external financial assistance and private foreign investment are of major importance in solving Argentina's balance of payments problem. Argentina is presently seeking additional IMF assistance of \$115 million to be made available until the newly elected government takes office in October 1963. One of the major problems the first 6 months of 1963 is a large budgetary deficit. Tax and railroad reforms are yet to be completed; and while some tax increases were drafted last October, their effect has not been sufficient to reduce the large budget deficits.

Gross gold and foreign exchange holdings of Brazil declined by \$96 million equivalent in 1962 and the trade deficit increased substantially over that recorded in 1961. Brazil's exchange rate policy continues to hamper exports and this, coupled with political uncertainty, has affected the inflow

of investment capital. Inflation greatly increases Brazil's difficulties and at a time when Brazil faces a tight schedule of service payments on medium- and long-term external debt during the period 1963-1965; rapidly rising prices reduce the chances for increased export earnings required to cover growing import needs and to service this large foreign debt.

In the last 3 years, Chile's gold and foreign exchange reserves have fallen to a low of \$78.9 million equivalent. On December 31, 1962, reserves were the equivalent of imports for about 1.5 months, and the country has accumulated large short- and medium-term foreign debt. These difficulties are the result of serious deficits in the balance of payments. Heavy deficit financing by the Chilean Government, the adverse foreign trade balance, and capital flight were the principal causes of the imbalance. A partial devaluation of the official rate for the Escudo reflected the inflation in the last quarter of 1962. A new free market rate for the Escudo and temporary import surcharges reduced imports and encouraged expansion of exports in the remainder of the year. By the beginning of 1963 there was a significant favorable reversal in the balance of trade. The authorities have formulated a comprehensive stabilization program, including effective monetary measures to correct the budgetary situation. The long-range economic outlook is improved.

As of December 31, 1962, gold and foreign exchange reserves in Costa Rica, including gold held abroad and foreign exchange held by both the Central Bank and commercial banks, totaled the equivalent of \$16.2 million. Total reserves however are the equivalent of less than 2 month's imports. Although the reserve position has improved since 1961, Costa Rica continues to face a critical foreign exchange situation. Export prices continue at depressed levels and the Government's budget is still unbalanced. In the latter part of 1962 the Costa Rican Government announced that the budget deficit has been reduced by increased government revenues and a loan from the U.S. Government. The trade balance continues to be in deficit as in previous years, partly arising from sustained low market prices for principal export commodities and from a large increase in imports in 1962. Costa Rica is taking measures to attain equilibrium in its financial accounts. IMF and U.S. financial support has been extended during the interim to support Costa Rica's policy of maintaining a unified exchange rate for the Colon and maintaining an exchange system free from restrictions. The strength of Costa Rica's financial position and that of her prospective partners in the Central American Common Market will determine in large part the degree of success such a regional bloc will enjoy.

The economic situation of Paraguay deteriorated during 1962. The currency depreciation in Argentina and Brazil adversely affected the Paraguayan exchange market and internal factors such as wage increases and bank credit expansion led to domestic inflationary pressures. Paraguayan reserves remained dangerously low.

Asia

India's gold and foreign exchange reserves, including balances held abroad, at the end of 1962 were \$150 million equivalent lower than at the beginning of the year. This drop in reserves occurred despite a \$25 million IMF drawing of Sterling in July of 1962. The drop in export earnings from tea, a general sluggishness of other export trade, and the border conflict which necessitated diversion of resources from export were significant factors preventing the usual seasonal rise in reserves.

At the end of March 31, 1962, Japan's official gold and foreign exchange reserves totaled \$1.6 billion, a decline of \$435 million equivalent since the beginning of the Japanese fiscal year in April 1, 1961. To counter this adverse payments position that developed in 1961, the Japanese Government and the monetary authorities adopted remedial fiscal and monetary measures as early as mid 1961. These measures included raising the Bank of Japan's basic discount rate, imposing credit ceiling on client banks, and the Bank's decision to introduce more flexibility in buying and selling securities in the capital market. In addition, payments assistance totaling \$325 million was obtained from several U.S. commercial banks, including a credit from the Export-Import Bank of Washington for U.S. agricultural commodities. A 1-year standby agreement arranged with the IMF in January 1962 was never used. Largely as a result of the tighter monetary policy, the payments position began to improve in the early months of 1962. The improved trade position, a surplus of \$241 million equivalent together with the net inflow of capital at the rate of \$434 million equivalent during the calendar year, resulted in an overall payments surplus equivalent to \$366 million equivalent. Gold and foreign exchange reserves were equivalent to \$1.8 billion by the end of December 1962.

AFRICAN MONETARY SITUATION

by

O. Halbert Goolsby

As referred to in this article, Africa consists of 48 different "Major Entities." These entities embrace (1) all of continental Africa except the tiny Spanish province of Ifni, and (2) the offshore islands of Madagascar, Mauritius, and Zanzibar, but exclude a number of other nearby islands sometimes included as a part of Africa.

Only 4--United Arab Republic (Egypt), Ethiopia, Liberia, and the Republic of (formerly Union of) South Africa--of the 48 major entities were politically independent prior to 1945. Since the end of World War II, 29 nations attained independence, making a total of 33 politically independent nations at the end of 1962.

In regard to control of monetary affairs, however, only 9 countries are completely independent; the remaining 39 rely to varying degrees upon financial ties with a European nation or the United States. This dependence may be substantial, as in the case of Liberia which has to date never issued its own currency notes but uses U.S. dollars for legal tender. On the other hand, the degree of monetary dependence may be so small as to be almost non-existent, such as in the Republic of South Africa. This nation controls all its internal and much of its external monetary affairs.

For the most part, all of the politically independent African nations have the right to divorce their monetary ties with other nations if they so desire. Among those that have done so, either at the time of independence or at some subsequent time, are the Congo (Leopoldville), Mali, and Guinea. When monetary ties are cut, however, certain advantages are lost, particularly the advantage of preferential treatment in regard to tariff and quota restrictions, the availability of foreign exchange, and other related payment and collection aspects associated with international trade.

Political independence for any country brings in its wake monetary problems. This is true in Africa today. In recognition of this and their need for economic assistance the United States has provided over \$1 billion in grants and credits to Africa since 1945. Since the advent of P.L. 83-480 (Agricultural Trade Development and Assistance Act of 1954) U.S. agricultural commodities valued at \$735 million have been shipped to Africa under this program; only one-third of total U.S. agricultural exports to this geographic area was sold commercially for dollars. The need for food and other economic assistance from the United States and other countries in future years on some sort of a concessional basis necessitates a thorough review of many factors. The African monetary situation is perhaps one of the most important factors.

Monetary Dependence

The degree of monetary dependence of the 48 major African entities has determined their grouping into the following 3 classifications:

- A. Entities that independently issue their own currency through their own Central Bank, or other financial institutions, and are in no way subject to regulation by the monetary authorities of a foreign nation.
- B. Entities that issue their own currency through one of their own financial institutions but are in various ways subject to regulation by the monetary authorities of a foreign nation.
- C. Entities that have their own currency issued by either a foreign nation or by a Currency Board, a Regional Central Bank, or a similar type of regional institution in which they have little or no control.

The three classifications of monetary dependence are indicated on the accompanying map (fig. 2) by the various shades of gray. The darker the shade, the greater is the degree of dependence.

Entities within Groups B and C are related in some form of monetary association with a foreign nation. This relationship is indicated on the map by a symbol following the name of each country. This association usually, but not necessarily, takes the form of a membership in a currency area. A general description of these currency areas follows.

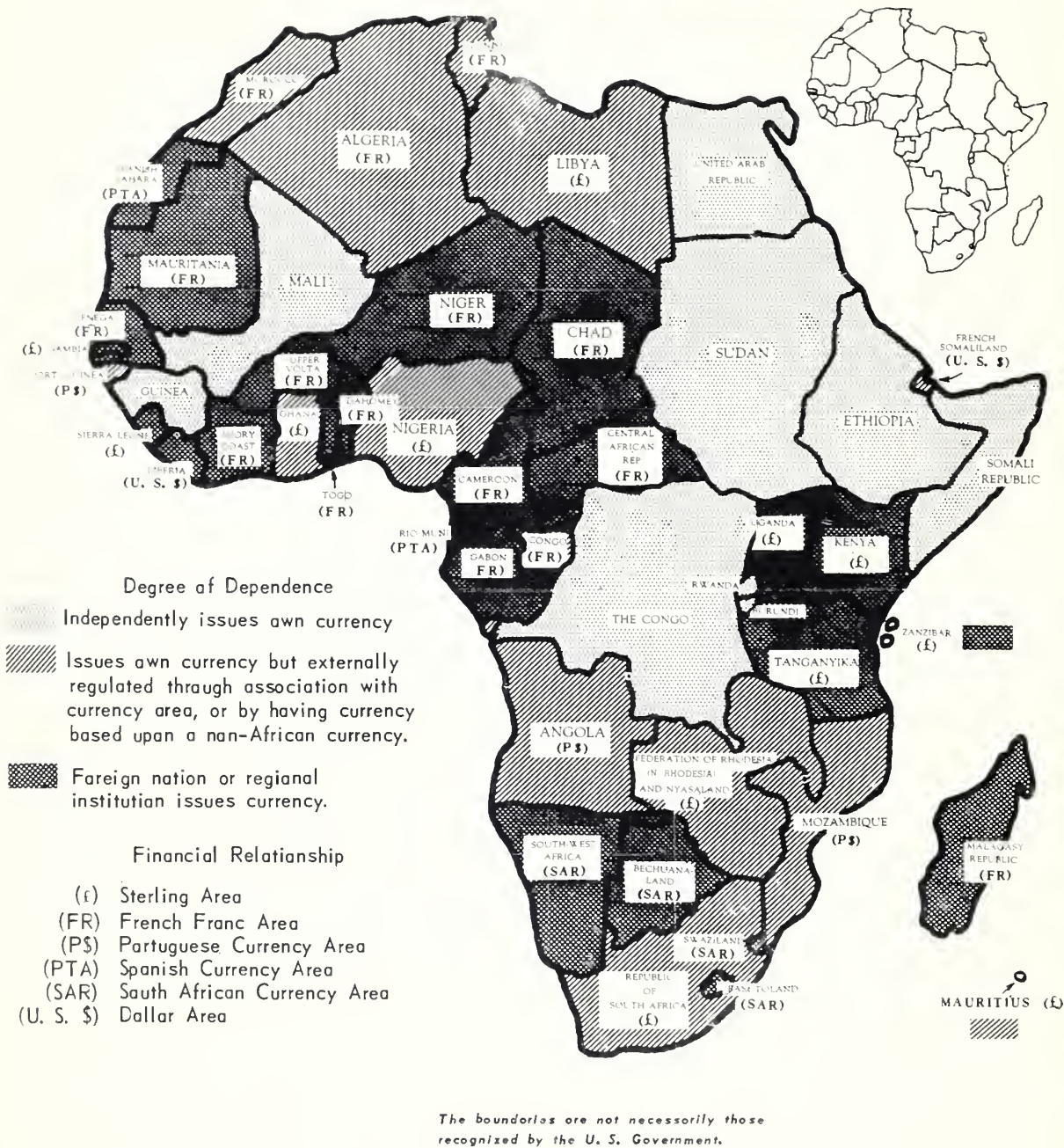
Financial Relationship

Sterling Area

There are 16 African entities in the Sterling Area. These entities can be divided into 4 groups; those belonging to: (1) the East African Currency Board, (2) the West African Currency Board, (3) the South African Currency Area, and (4) the countries that fall into group B within the Sterling Area (other than the Republic of South Africa).

The areas belonging to the East African Currency Board (EACB)--Kenya, Tanganyika, Uganda, and Zanzibar--use a common currency, the East African Shilling, which is issued by the EACB. Although EACB functions have broadened in recent years, its primary service to East Africa is that of a regional organization which issues and redeems currency automatically on demand against sterling. For each pound sterling (=20 shillings) the EACB has on hand (an asset) it may issue 20 East African Shillings (a liability). The Currency Board's assets increase or decrease according to East Africa's balance of payments. In recent years the Board has taken on some of the functions of a central bank; that is, regulation of the money supply to meet cyclical or seasonal economic fluctuations. Assumption of such functions has been slow.

African Monetary Situation



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Figure 2

When Kenya's independence is granted in the near future, the authority for controlling money and credit will be wholly transferred to the East Africans. The EACB at this time will be transformed into a central bank serving all the nations of the region. Political pressures, however, may lead to the formation of a central bank in each of the major entities in this area.

There are only two small countries--Gambia and Sierra Leone--in the West African Currency Board. Sierra Leone is expected to issue its own currency in the near future. As a result, the West African Currency Board may disappear. Monetary arrangements in West Africa in the past were similar to those of East Africa.

The South African Currency Area is a currency area within the Sterling Area. The South African Rand circulates in the Republic of South Africa and four nearby entities. It is therefore treated here as a currency area on an equal footing with the Sterling Area and is discussed separately below. The remaining five entities--Federation of Rhodesia and Nyasaland, Ghana, Liberia, Mauritius, and Nigeria--in the Sterling Area are relatively independent in monetary affairs and fall in Group B.

French Franc Area

The French Franc Area also contains 16 African entities which may be subdivided into 2 groups: those falling into Group B and those in Group C. There are only three countries in Group B--Morocco, Tunisia, and Algeria. Some of the monetary arrangements between these countries and France are still open for negotiation. This is especially true for Algeria, which only recently received its political independence. In general, they all issue their own currency which can be freely exchanged for French Francs.

The 13 countries in Group C all use the CFA ("Communauté Financière Africaine") franc which is fully guaranteed by France. The CFA franc is issued by (1) the Central Bank for the States of Equatorial Africa and Cameroun, which serves five countries, (2) the Central Bank for the States of West Africa, which serves seven countries, and (3) the Malagasy Institute of Emission which accommodates the Malagasy Republic. In 1962 France and Togo reached an agreement on the creation of a separate central bank in Togo, but as yet this bank is not in operation.

Monetary arrangements with France may not be the same for each of the countries using the CFA franc. Such arrangements may undergo considerable change in the future.

Portuguese Currency Area

There are three entities in this area--Portuguese Guinea, Angola, and Mozambique. Each of these territories has a central bank which issues the escudo. However these banks are closely controlled through the monetary regulations established by Metropolitan Portugal.

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ERS FPSpanish Currency Area

There are two entities in this area--Spanish Sahara and Rio Muni. They use the Spanish peseta which is issued by Metropolitan Spain.

South African Rand Currency Area

The South African Rand (SAR), issued independently by the Republic of South Africa, is the currency used in: (1) the Republic itself, (2) South-West Africa, (3) Bechuanaland, (4) Swaziland, and (5) Basutoland. Although the last three of these use the South African currency unit, they are politically governed by the United Kingdom. South-West Africa is a mandate of South Africa. Since the SAR is one of the monetary units of the Sterling Area, members of the SAR Currency Area are also members of the Sterling Area.

U.S. Dollar Area

Although there is formally no dollar area in Africa one has been nominally created here to cover two entities that rely heavily on the U.S. dollar--Liberia and French Somaliland. Since 1943, U.S. dollar notes and coins have circulated as the legal tender of Liberia. Although the Legislature of Liberia has established the Liberian dollar, no currency notes have so far been issued. However, up to the end of 1962, the Liberian Treasury had minted \$2.5 million of fractional Liberian coins and Liberian dollars in the form of coins, the bulk of which are in circulation.

Although French Somaliland is politically tied to France, it is not in the French Franc Area. The Djibouti franc which was introduced in 1949 is the basic currency unit and is issued by the local government. This area has been placed in the U.S. Dollar Area because the Djibouti franc is covered 100 percent by a U.S. dollar fund.